

**WILLIAMS-SONOMA INC.**  
**PRC FIELD HEARING**

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I would like to thank the Postal Regulatory Commission for the opportunity to present testimony on the development and implementation of a modern system of rate regulations as required by the new Postal Accountability and Enhancement Act (PAEA). We commend the Commission on accelerating the process of enactment the new requirements.

Williams-Sonoma Inc. views PAEA as providing much needed simplification and regularity in the establishment and adjustment of postage rates and will benefit business mailers, the general public and the USPS. Additionally, we place great value in its goal of positioning the USPS as a viable enterprise that is capable of change and adaptation to meet the needs of a changing business environment.

To underscore the importance of the USPS to Williams-Sonoma I would like to tell you that since we first introduced our "Catalog for Cooks" in 1972, with only a single retail store in San Francisco, we have grown to be a nationally recognized brand with approximately \$4B in annual sales and roughly 585 stores in 43 states. This growth has been driven and supported exclusively by our catalogs. Even with the growth of internet marketing, well over 95% of our annual advertising and promotion budget is still spent on catalog production and mailing, and the USPS is our largest single vendor.

I have several points that I would like to discuss about the PAEA implementation:

Annual Rate Changes

In our opinion, one of the most important benefits of PAEA will be established timing and frequency of rate adjustments.

To that end I encourage the Commission to adopt a mid-year date for the adjustment all classes of Market Dominate products.

- An annual mid-year date, such as July 15, preceded by the appropriate advance notification, occurs at a time favorable to the fiscal planning cycle of many companies, including Williams-Sonoma. Such timing would minimize a variable that can undermine any successful business plan.

- Further – Following the implementation of new rates in May of this year, any additional increase in postage is an untenable proposition that would be further devastating to catalogs and other standard class mailers already reeling from unprecedented and unanticipated increases. We believe it is essential for USPS to begin modern rate making as prescribed by PAEA and thus eliminate the need for an omnibus rate case under the old regulations and protect standard class mailers from another increase.

With respect to creating an annual schedule for rate changes, we strongly support the proposal that a key element should be recognition of the benefits that would accrue to both mailers and the USPS of accommodating short-term, intra-year variations in the schedule that reflect marketplace considerations and internal USPS workload capacity.

Variations such as seasonal rates and day-of-week delivery rates would be an attractive and welcome benefit to catalog mailers as well as other others. I cannot over emphasize this point and encourage due consideration, especially given the burden placed on most catalog mailers as a result of the last rate case.

#### Notice of intent to change rates

Advance notification of any scheduled rate adjustment or seasonal variation is especially important to catalog and direct marketing mailers. Direct marketing program and campaign planning, and particularly catalog production schedules, typically require commitments for paper and other production elements far in advance of actual mailing – often in excess of 120 days. The programming and software requirements of our vendors and suppliers can easily exceed 120 days for development and testing and the consideration and programming for any mail preparation and entry changes adds even more complexity and planning.

In recognition of this, we believe that a similar commitment to formal advance notification on the part of the USPS is appropriate.

Additionally, I feel that this notification schedule should not preclude consideration of advance communications and discussion of proposed rate considerations with key mailers and industry organizations. This early discussion, without commitment, would position the USPS as a partner with its customers much in the manner of all other suppliers and vendors in corporate business. A goal of PAEA is the establishment of the USPS as a customer centric organization and this would be a big first step.

#### Complaint process

In establishing guidelines for the complaint process, I would caution that they must be done in such manner that the process cannot evolve back into the often-contentious rate case system we are trying to leave behind. The rules must be defined such that the basis for complaints and their resolution is clear and quickly resolved.

### Exigency Circumstances

With regard to the "exigency clause" we support the position that it would not be prudent to try and define the circumstance beyond "extraordinary and exceptional" but we firmly believe that there MUST be rules that dictate timely evaluation for the continued need of any adjustment AND that any such adjustments NOT be considered in any part of the baseline rate consideration.

### Definition of CPI

To address the issue of the Postal Services' proposal to use a single month as a reference point for the CPI increase over the previous year, we do not see this as being within the intent of the PAEA and could be seen by many mailers as a means of implementing larger than regulated increases. The annual average as the reference period is that which is used most commonly.

### Shifting Cost Burdens

I cannot overstate the fact that there is great concern among many of my peers rising from the threat of shifting cost burdens to mailers as a consequence of USPS imposed changes. There are considerable changes imminent to both entry and preparation qualifications – mostly as a result of the network redesign and FSS - and we need to be assured that those resulting costs will not become hidden rate increases or reasons for failure to meet service standards. The industry fully supports and encourages the changes proposed, but we have to participate in the planning and share in the savings.

### Negotiated Service Agreements

I would also like to address the topic of Negotiated Service Agreements. I have been evaluating this opportunity for Williams-Sonoma Inc. for over a year and find that it continues to appear to offer benefit to us, but, despite the outstanding work and dedication of the internal USPS staff, it is still a long and expensive process.

I ask that guidelines be established to expedite the process as soon as possible and make this a truly workable proposition. It should be simple in the evaluation of benefit, be given additional USPS staff resources for guidance and approval. And it must be faster and less costly. An NSA has the promise of making the USPS a more competitive organization in today's marketplace and this is a goal that must be achieved. I for one would like to make this work, but in it's current structure it is difficult.

### Service Standards and Measurement

The establishment of service standards and measurements as they affect Standard Mail are of key importance to Williams-Sonoma and all of the direct marketing industry. As I noted when I began, Williams-Sonoma depends on the USPS as a key partner in achieving its business goals, and their role is timely and accurate delivery of nearly 390MM catalogs mailed annually in over 65 different mailings.

At our business peak, our sales planning and work scheduling of nearly 45,000 associates among our stores, call centers and distribution facilities depends on delivery of catalogs to our customers on the date our strategic market planning dictates. I should note that strategic market planning means getting the our catalogs to our customers when they are most like to respond – not when we have merchandise at the stores or when we are prepared to answer their call and process their order. Our customers drive our business.

Our print partners do an exceptional job of planning for delivery through the USPS network but ultimate success relies on USPS meeting its standards. We can adjust our planning but that guidance from the USPS MUST be accurate.

I currently have the privilege of participating on an MTAC workgroup that is addressing this issue and I feel the standards to currently being considered in the recommended are adequate. But these recommendations must not require any guesswork on the part of mailers and proposed guidelines must define how to plan or implement the standards when the delivery period spans a window that includes weekend days and/or holidays. Due to the effect on anticipated processing and delivery time, different guidance for peak high volume workload periods is extremely important. These standards must be subject to regular re-evaluation and be amendable to reflect improvements in USPS operational capabilities.

Further – standards are almost meaningless without measurement and I encourage the establishment of measurements as soon as possible. Until such time as new internal USPS tools are in place I would ask that consideration be given to use of outside services to provide at least basic documentation. An example of this would be the partnership of USPS and Pricewaterhouse Coopers that was in place 10 years ago. It was accurate, timely and precise in its identification of delivery problem areas and overall performance. It actually offered us an opportunity to adjust staffing levels in reaction to actual catalog delivery.

I would conclude on this point that the standards and reporting should have a goal of providing advance notification and guidance as well as after the fact measurement. Our mailing planning is much more accurate when we have advance notice of problems and problem areas that are exceptions to standards and we would like to see the USPS as a source rather than our usual antidotal information. The standards and measurements should evolve into a system that provides guidance and information that allows us to enter our mail into the USPS system in a manner that insures the USPS will be able to meet the established delivery.

#### Service Structure and Communication

For a considerable number of years, Williams-Sonoma Inc. has had the privilege of being assigned a National Account Manager. While I find this to be a benefit, it does not come without a level of frustration. As a part of the USPS sales organization the role of a NAM focuses on sales of USPS products, but in my opinion, if the USPS is to become a customer focused organization and function as a truly competitive business the NAM must be the lead representative of the entire USPS organization and be fully equipped

and knowledgeable to work with customers and speak to the entire range of products, services and changes within the USPS.

In a new organization I would ask that my account manager to have the ability to advise and work with me on the postal issues that concern me the most. This is the way that we work with all other suppliers and the USPS should be no different. This individual should be the first to come to me with the anticipated rate increase guidance, before an increase is generally announced. Likewise, they should be able guide us managing the change in new requirements for mail design and network evolution and as well as mail preparation and processing such as FSS. We have, and will continue to rely on print and mail preparation partners but I feel that we should be able to receive first hand knowledge directly from the USPS.

Near the conclusion of R2006-1 we heard that PMG Potter wanted to hear directly from mailers. I believe that he did hear directly and in great numbers, and regretfully the ultimate outcome was not more favorable for standard mailers, but we applaud this attitude and encourage it to continue. Direct communication must flow both ways. This is the only way to promote true partnership and remove secrecy and surprise that has been inherent in the postal system. Once again – I encourage a new definition of USPS client and account managers that represent the entire organization and it's operation.

### Conclusion

I will conclude my remarks by saying that implementation of the new regulations must position the USPS to become a competitive and customer service oriented organization. This includes the way the organization manages their larger accounts, and the way that they manage relations with all standard mailers. Standard mail is now the main-stay of USPS business and standard mailers want to move forward in a relationship of more openness and partnership.

We believe that our catalogs bring value to the mail stream. Many customers request our catalogs and we are told that they look forward to receiving them. Williams-Sonoma catalogs can even be found for sale on eBay. I have to also emphasize that catalogs are unique and a large part of standard class mail, and all catalogers feel that we provide an increasingly greater value to daily mail delivery and the 'mail moment' in every US household. Ever since the introduction of catalogs by Montgomery Ward, Sears and their predecessors, catalogs have been a part of American life and will continue to be so. I am proud to be able to tell you that when The New York Times prepared their Millennium capsule, to be opened in the year 3000, they included not a book or a piece of literature but rather a Williams-Sonoma catalog to represent today's culture. To me, that is very powerful testimony to the iconic position of the catalog in today's world.

Catalogs are a major part of advertising in the US, and as we can testify at Williams-Sonoma, catalogs drive the new world of ecommerce. Multi-channel marketing is the successful strategy in modern communications and retailing today and catalogs are the cornerstone. Therefore the USPS must embrace every opportunity to encourage and foster their growth. The effects of R2006-1 will be devastating to the industry but

implementation of the new rate making regulations offers the opportunity to negate that in the near future.

I must encourage you to adopt rules that work in favor and the best interest of commercial mailers as well as the USPS.